

MINUTES OF THE CITY COUNCIL
CITY OF AUSTIN, TEXAS
Special Called Council Meeting

April 2, 1980
4:25 P.M.

Council Chambers
310 West Second Street

The meeting was called to order with Mayor McClellan presiding.

Roll Call:

Present: Mayor McClellan, Councilmembers Cooke, Goodman, Himmelblau,
Mayor Pro Tem Mullen, Councilmembers Snell, Trevino

Absent: None

Mayor McClellan stated that she had changed the posting not only to a Work Session, but to a Special Called Meeting of the Council, so that they could take any desired action. She said she also wanted to allow an opportunity for citizen comment, if there were any who cared to speak at the end of the meeting. The Mayor further stated that anytime the Council has a financial work session, a part of that time should be allowed for citizen inquiries and comments.

City Manager, Dan Davidson, noted that the items reflected on the Agenda were of such importance that it was appropriate to utilize a Work Session, in order to concentrate on several items of finance.

Monty Nitcholas, Director of Finance, was called upon to make a presentation in connection with several items on the Agenda.

NEW ACCOUNTING SYSTEM

Mr. Nitcholas said that the new accounting system would be know as "The Brain" - Budgeting, Reporting, Accounting Information Network. He said the system was implemented October 1, 1979. He said some changes in the format would be made, as problems become apparent.

"The system itself has two major components," said Mr. Nitcholas. "One of them is the Accounts Payable portion of the system and the other is what we call the Core System or the Financial Accounting System. The Core System replaced several individual accounting systems that we had under the old method. We used to run it into the computer, get it out, analyze the information, key the summaries into the computer, get out and etc. Everything was kind of a "stand alone" system. This is a totally integrated system that has one entry one time and it goes throughout the whole system in an explosion manner. The system automatically, as I said during the explosion method automatically accepts the data from several other systems that we have that are called interface systems that were already in existence - the Payroll System, the Vehicle Services System, the Stores and Inventory System and Indirect Cost System. Those systems are interfaced into this system and the information does not come out andit goes directly thru the system; so, we don't have to stop and start."

Mr. Nitcholas showed the Council samples of information to be contained on the micro-fiche which has been supplied in each department.

Councilmember Himmelblau asked Mr. Nitcholas "how soon before it is caught" in the event that something is punched incorrectly.

Mr. Nitcholas replied that the "keying in" will all be done in either the Finance Department of the Data Systems Department. Most everything will be done on the terminals in the Finance Department. He said there are some safeguards in the system such as having an active account number, before it will take the charge. Mr. Nitcholas said his only lack of confidence in the system would be in the personnel's ability to operate it. The system it totally new and staff is not geared to operate it.

To Councilmember Mullen's question, Mr. Nitcholas replied that the exceptions are dwindling and that we are now in the current month.

MONTHLY FINANCE REPORT
as of February 29, 1980.

Mr. Nitcholas said that there were some problems in putting the report together because they were mulling around with the new system. He said that there are some format changes and some areas that have not yet been covered, such as the CIP. Mr. Nitcholas further noted that one of the changes is that there is no longer a separate highlights letter.

Mayor McClellan asked Mr. Nitcholas to identify those departments which are further along in the budget than expected, at least by the next meeting.

Mr. Nitcholas reviewed the status of the budget in the various departments and the general data contained in the report.

City Manager Davidson commented that "we will confirm this pretty accurately and get a follow up to report to this Council on the exceptions." He also said that he would have a follow up check on the large primary services.

Mayor McClellan requested written answers to the questions which the Council asked regarding the monthly financial report.

PROPOSED ORGANIZATIONAL PLAN for the FINANCE DEPARTMENT

Mr. Nitcholas said that the systems and analysis area can now be reduced; but, staff with expertise in accounting should be increased. He said that some areas have been reduced thru attrition and others have been re-defined. While asking for nine (9) new positions, Mr. Nitcholas also noted that five (5) old positions can be deleted for a net increase of four (4). Mr. Nitcholas asked that special emphasis be placed on acquiring a Controller, a Treasury Officer and a Retirement Administrator.

Councilmember Himmelblau inquired as to whether the Retirement Administrator will be partly paid by the Retirement System or whether he/she will be totally salaried by the City.

Mr. Nitcholas replied that the problem of a Retirement Administrator has not really been addressed, but City personnel can handle the retirement funds adequately enough until a decision can be made.

One additional area in which Mr. Nitcholas noted a need was that of a supervisor in the Accounting Department, hopefully in the utility area.

Mr. Davidson said that "we will put this on the Agenda for formal consideration of the Council. I do want the Council to know that I have assigned a number of additional resources to help Mr. Nitcholas in filling these key positions; that is now considered to be a top priority to help him locate enough qualified competent applicants to fill these top jobs."

Mr. Tom Nerse, Auditor, asked for an opportunity to examine the re-organizational plan noting that it was imperative to fill the positions of controller and treasurer officer.

Mayor McClellan instructed the City Manager to schedule the appointment of the Audit Finance Committee on the April 10 Agenda.

DISCUSSION OF THE INDEPENDENT AUDITOR'S LETTER
OF January 18, 1980

Mr. Nitcholas commented that some of the areas which were mentioned in the Peat, Marwick, Mitchell letter of January 18 have been solved and that others are in the process of being solved. For the most part, the program areas have been "squared away". Only three of planned five sub-systems have been interfaced and operational. He continued to say that it is not possible at this time to determine when the contractual financial information system will become fully utilized, although practically speaking it is fully utilized now. He noted several other items which were addressed in the letter. He further noted that the City's Internal Auditors are now being involved in the conversion process.

Mr. Bob Bramlett, the City's Internal Auditor, reviewed the items for which he has been responsible. He said that "the comments by Peat, Marwick, relating to the Internal Audit effort, can be categorized under two headings, basically - (1) They suggested that we were not up to speed in our involvement on the new accounting system and computer auditing in general. They were quite right about that. We recognize that since January we sent one audit supervisor to training in EDP auditing. We've arranged for an in-house seminar - a one week seminar later this month for the entire audit staff and I've hired an EDP audit specialist who is qualified in that area. He's starting to work right now on the new financial accounting system...(2) We need to do some extensive testing on transactions during this year, since we had some doubts about the internal controls operating effectively. It's not hard to find examples of problems in the new system...We are 95% confident that the computer generated checks have gone out to the right people and they have included the right accounts, etc., with an error rate of less than 1%. That may seem like a strange way of putting it; but, it is based on statistical samples...I think that indicates that the system is basically in control. Clearly, as we know, there are some bad data in there and that is going to impose an extra burden on the Finance Department and upon the internal auditors and upon the external auditors...."

"In May 29, 1979 there was an interesting thing about including compliance with the Bond Indenture requirements," said Councilmember Himmelblau. She asked Mr. Bramlett to comment.

Mr. Bramlett, who had not researched the area, asked Mr. Nerse to comment.

"The reason that was put into the management letter," said Mr. Nerse, "is that we are not in compliance with, at that time, with two parts of the Bond Indentures regarding the issuance of revenue bonds. Those two areas were (1) is that under the old first lien bonds, before the refunding took place, there was a requirement in that indenture that the City had to invest in government securities in the reserve funds. What happened is that we

MOTION

Councilmember Cooke moved that the Council give staff direction in increasing the salary levels of controller and treasury officer from M-11 to M-16 and M-6 to M-8. The motion, seconded by Mayor Pro Tem Mullen, carried by the following vote :

Ayes: Mayor McClellan, Mayor Pro Tem Mullen, Councilmembers Cooke, Himmelblau, Trevino

Noes: None

Not in Council Chamber when roll was called: Councilmembers Goodman, Snell

AUDIT COMMITTEE

Dan Davidson, City Manager, said that an Audit Committee should be established by the City Council as follows:

1. Composed of three Councilmembers and two Administrative Officials, including the City Manager.
2. Monthly meetings.
3. Would discuss special budget considerations.
4. Study recommendations of independent audit firms.
5. Review annual financial reports and the independent auditor's management letters.
6. Review some of the internal audit functions.

Mayor McClellan commented that it would be good to have an Audit Committee; however, she would like to continue to have the monthly finance meetings.

After some discussion of whether it was necessary to have a committee meeting in addition to a regular monthly finance meeting, Councilmember Goodman commented "that this committee would be doing some intensive work and could be passing on information to the other Councilmembers. In the regular monthly meetings, they could be shorter, perhaps maybe longer, but certainly more productive is the way I would perceive the function of this committee."

Councilmember Cooke commented that the Council does not spend enough time on the financial affairs of the City. He said in order for the Council to be more informed on fiscal matters, the committee would be a good approach.

Councilmember Himmelblau stated that she would like to be considered for the committee and had no objections to the meetings being open.

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invested in Certificates of Deposit; so, after the refunding, that automatically took us out of that problem (compliance)...(2) is that the indenture says that there will be an agent appointed by the City, which I assume will be a bank, who would keep all those securities in custody at the bank and they would actually have a control over the sale and buys in those securities and of course, the City has not done that; it has never done it. They have authority to go into the safekeeping department of the bank and move those securities around. That part of the indenture is still not in compliance."

In response to Councilmember Goodman's inquiry, Mr. Nerse replied that "when the new treasurership falls under the Finance Department then they are going to have to take a look at that and decide how they are going to get into compliance with the indenture; but, the City has never been in compliance with that portion of the revenue bond indenture and not one has ever raised the issue from the outside. The auditors have always had to disclose that as an exception in the footnote...There are some ambiguities that create some problems regarding the computation of the required reserve funds - the debt service funds - that we think need to be clarified and at that point needed legal counsel's letter to clarify some of it. Some of it we got; some of it we didn't get."

Mr. Nerse continued. "We have been spending a lot of time on getting 1979 completed. Hopefully, as I said earlier, we hope to have a draft of the Financial Statements for your review by the end of this month. We then hope to have a draft of the Management Letter to go over with an Audit Committee first - first Management; then the Audit Committee by the middle of May. Because we have been spending a lot of time on the '79 financials, we have not spent a lot of time following up on our recommendations in this letter and I think that a lot of work has been done to follow these recommendations. I think there is still a lot of work to be done. I would like to point out that we will look at the proposed reorganization of the Finance Department and will issue you our comments regarding monitoring the appropriations, encumbrances and expenditures. I think that has to be done. That is very important and I hope that will be done...it is good to see the Internal Audit Department is in there and doing some test work."

Mr. Nerse continued saying that he would "like to address some of the other recommendations in the letter regarding the consultants and the City data processing personnel assigned to the project that recently formulated another plan to correct existing errors in the programs and to complete the documentation of those programs and turn them over to the City as quickly as possible. It is my understanding that they are working diligently to try to get these programs documented so that they will be accepted by Hugh Standifer and his staff and they do have some pretty rigid controls as to when they take these programs over."

Secondly, Mr. Nerse said that the contract has a maintenance clause requirement that says that "the consultant should maintain these programs for one year, after the system is implemented." He further stated that both parties, the City and the consultants, should agree on what constitutes implementation, in order to determine the start of the maintenance period.

He said that the financial system is not in conformity with generally accepted accounting principles at this time. He suggested a review of the statements sometime in June and further suggested that management needs to look at when the system is to be accepted.

Councilmember Himmelblau asked Mr. Nerse if the system would be accepted when all the kinks have been worked out of it.

Mr. Nerse replied that the system is big and there will always be kinks. The important thing, according to Mr. Nerse, is that when the computer prints-out the final top-grade financials that they are in accordance with generally accepted accounting principles that are required.

Councilmember Mullen asked Mr. Nerse who negotiated the contract.

Mr. Nerse replied that the contract was negotiated by the management group, including himself, Mr. Standifer and Mr. Nitcholas and that there is a problem regarding the acceptance date.

"Tom", said Councilmember Goodman, "do you have any recommendation on that, if Arthur Anderson has a real disagreement with us on when they think implementation occurs and when we think it occurs?"

"Well, I think when it occurs," said Mr. Nerse, "is when you get those financial statements in accordance with generally accepted accounting principlesWhat we are doing is preparing financial statements as of September 30, 1979, in accordance with generally accepted accounting principles...My position for the City as a recommendation from your independent auditor is that system not be accepted until those financial statements come out of there showing that information that is required by the National Council of Governments, which is the Gather Restatement."

Mr. Nitcholas said that he does not necessarily concur with Mr. Nerse in total. As far as the reports coming out in conformance with the National Council of Governmental Accounting is concerned, Mr. Nitcholas said that he was not certain that was a part of the contract. He said he does not necessarily agree that they must come out in that particular format; however, he said the general ledger must come out in a good accounting format. He said he has not reviewed the contract recently.

Mayor McClellan requested that Mr. Nitcholas report back to the Council as rapidly as possible after reviewing the contract. She then called for citizen comments.

ADJOURNMENT

Council adjourned its meeting at 6:25 P.M.

APPROVED

Carole Tector McCallister
Mayor

ATTEST:

Grace Monroe
City Clerk